

Revenue forecasts are prepared by the Economic and Revenue Forecasting Council on a quarterly basis as required by law. The revenue forecast used by the Governor for his budget was prepared in November 1986. The Legislature had the benefit of two additional revenue forecasts, one adopted in March and one in May of 1987. The additional May forecast was not required by law. There were substantial revenue revisions from the November forecast to the May forecast both for the 1985-87 biennium and the 1987-89 biennium amounting to an additional \$213.5 million.

The Governor's budget, based on the November forecast, proposed additional funding for education which required a \$510 million tax increase and left an ending general fund-state balance of \$217.8 million.

The first budget passed by the House of Representatives was based on the March 1987 forecast and also proposed increased funds for education requiring a tax increase of \$322 million and would have left an ending general fund-state balance of \$27.4 million. Subsequently, the Senate considered a budget requiring a tax increase but it failed to get sufficient support. It would have required a tax increase of \$260 million and would have left an ending fund balance of \$137.5 million.

The Senate then passed a no tax increase budget leaving an ending fund balance of \$90.6 million. The House refused to concur with the Senate budget and the regular session of the Legislature ended in impasse.

In the extraordinary session the House passed a no tax increase budget which left an ending fund balance of \$2.8 million. The Senate amended the House budget leaving an ending fund balance of \$74.5 million. The House refused to concur in the Senate amendments and the matter was sent to conference committee. The conference committee report which was adopted by the Legislature did not require a tax increase and left an ending fund balance of \$71.1 million. After taking into account the Governor's vetoes of several tax exemption bills and certain sections of the budget bill and the Governor's promises of spending reductions, the ending fund balance was \$75.8 million.

The revenue forecast for each biennium is one element of revenues assumed to be available for expenditure. In addition, during each session legislation is enacted which affects revenues. Generally the Forecast Council accounts for legislation in the forecast following a legislative session. However, during its budget deliberations the Legislature keeps track of such legislation and creates a balance sheet which incorporates such changes. Below are the forecasts for both 1985-87 and 1987-89 followed by legislation or other items assumed to affect revenues which have not been incorporated in the revenue forecasts adopted by the Economic and Revenue Forecasting Council.

1985-87 Revenues and Expenditures (Dollars in Millions)

Revenue:

Initial December 20, 1984 Forecast	\$9,646.4
March 18, 1985 Forecast change	(153.6)
June 3, 1985 Forecast change	(221.3)
September 17, 1985 Forecast change	(5.3)
December 18, 1985 Forecast change	3.1
February 18, 1986 Forecast change	20.3
June 19, 1986 Forecast change	58.1
September 1986 Forecast change	(2.5)
November 18, 1986 Forecast change	28.7
March 18, 1987 Forecast change	44.6
May 4, 1987 Forecast revision	30.5
Forecast Used For Legislative Budget	\$9,449.0

Adjustments To Forecast:

Transfers of funds	(3.4)
Total Revenue Available For 1985-87	\$9,445.6

Expenditures:

1985-87 Biennial budget	\$9,251.5
Supplemental budget	68.9
Citizen's commission on salaries	.1
Expected reversions	(49.5)
Adjust state revenues for distribution	9.5
Total Expenditures For 1985-87	\$9,280.5

Ending Balance :

June 30, 1987	\$165.1
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Revenue Accrual Account

State law requires that at the close of each biennium the State treasurer shall transfer the balance in the state general fund to the revenue accrual account. Moneys in this account may only be expended after appropriation for the purpose of decreasing the unfunded liability of a state retirement system.

In accordance with this law the legislature appropriated the \$165.1 million balance in the revenue accrual account for the Teacher's retirement system and the Law Enforcement Officer's and Fire Fighter's retirement system (LEOFF).

1987-89 Revenues and Expenditures General Fund - State (Dollars in millions)

Beginning Fund Balance (7/1/87) \$0.0

Revenue:

November Revenue Forecast (1986)	\$10,027.7
March Adjustment (1987)	139.4
Current Revenue Forecast	\$10,167.1

Revenue Revisions:

Revenue Legislation	1.2
Budget Driven	42.0
Navy Homeport	28.1
Total Revenue Available for '87-89	\$10,238.4

Expenditures:

HB 1221-Operating Budget	\$10,120.5
Governor Vetoes	18.0
Other Legislation	37.9
Total Spending Authority	\$10,176.4

Governor Expenditure Reductions	(19.1)
GAAP Adjustment	5.3
Total Expenditures	62.6

Ending Balance (6/30/89) \$75.8

Budget Driven Revenues (Dollars in millions)

Source	GF-State	
Department of Revenue Auditors		\$26,400,000
DSHS Billings and		
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Child Support Payments		9,500,000
Summer School Tuition		5,000,000
Pacific Celebration		500,000
Other		600,000
Total		\$42,000,000

Other General Fund Revenue Legislation

Bill Number	Subject	Session Law	GF-State
HB 1	Christmas Trees Excise Tax C	23 L 87	(\$432,000)
HB 66	B&O Tax/Barley	C 139 L 87	(\$4,000)
HB 67	B&O Tax/Seed Conditioning	C 493 L 87	(\$50,000)
HB 138	FVOC Excellence Award/Tuition	C 231 L 87	(\$210,000)
HB 198	Sales Tax Trust Fund	C 245 L 87	\$6,436,000
HB 199	Timber Excise Tax	C 166 L 87	(\$7,000)
HB 209	Cigarette Taxes/Enforcement	C 496 L 87	(\$1,666,000)
HB 274	DSHS/Overpayment Recovery	C 283 L 87	\$578,000
HB 282	Food Coupons Tax Exemptions	C 28 L 87	(\$1,771,000)
HB 321	Tax Deferrals/Alum Casting	C 497 L 87	(\$3,900,000)
HB 388	Wastewater Treatment Facility	C 357 L 87	\$125,000
HB 403	Aircraft Regis-Tax/DOT	C 220 L 87	\$136,000
HB 435	Real Estate License/Inactive	C 514 L 87 PV	\$0
HB 551	Aquatic Lands Sales	C 350 L 87	(\$102,400)
HB 559	Vanpool Laws/Extending	C 175 L 87	(\$409,000)
HB 628	Tax/Cmrel Fishing Diesel Fuel	C 494 L 87	(\$860,000)
HB 644	DOE/Certify Testing Labs	C 481 L 87	\$13,000
HB 671	Construction/New/Assessment	C 134 L 87	\$162,000
HB 695	Prop Tax Seniors Disabled	C 301 L 87	(\$1,710,000)
HB 739	Bond Ceiling/Private Activity	C 297 L 87	\$100,000
HB 772	Property Tax Provisions	C 319 L 87 PV	(\$4,000)
HB 790	Timeshares/Laws	C 370 L 87	\$284,000
HB 831	Horse Racing Commission/Revisions	C 453 L 87	(\$794,706)
HB 931	Legend Drug Samples/Dispense	C 411 L 87	\$15,000
HB 947	MV Excise Tax/Collection	C 260 L 87	\$200,000
HB 984	Parimutuel Wagers/Satellite	C 347 L 87	\$524,483
HB 1021	Higher Ed Opportunity Program	C 305 L 87	(\$39,000)
HB 1065	Fingerprint ID System	C 450 L 87	\$250,000
HB 1087	Prop Tax/Arts Organizations	C 468 L 87	(\$48,000)
HB 1090	Student Loans/Nonprofit Tax	C 433 L 87	(\$223,000)
SB 5009	Dialysis Property Tax	C 31 L 87	(\$4,000)
SB 5063	Child Abuse Info/Employees	C 486 L 87	\$120,000
SB 5110	Wash Scholar Award	C 465 L 87	(\$498,000)
SB 5212	Temporary Retail Liquor License	C 217 L 87	\$38,000
SB 5249	Court Filing Fees	C 382 L 87	\$164,000
SB 5253	Displaced Homemakers	C 230 L 87	\$450,000
SB 5293	Social Welfare/Adult Family Homes	C 4 L 87	(\$75,000)
SB 5330	Disability Accommodation Fund	C 9 L 87	(\$200,000)
SB5495	Food Fish/Personal Use	C 87 L 87	\$4,444,000
SB 5515	Vessel Dealer Registration	C 149 L 87	\$331,300
SB 5678	Deaf Students/CC Fee	C 390 L 87	(\$136,000)
SB5763	Surplus Salmon Eggs Sale	C 48 L 87	(\$60,000)
SB5858	Mobile Homes Sales Tax	C 89 L 87	\$400,000
SB 5911	DNR Purchase Properties	C 472 L 87 PV	\$0
SB6016	Trans Revenue & Tax	C 9 L 87 PVE1	\$0
SB 6033	Hops/B&O Tax	C 495 L 87	(\$400,000)
Total			\$1,167,677

Other General Fund Appropriation Legislation

Bill Number	Subject	Session Law	GF-State
HB 364	Contractor Disclosure	C 419 L 87	\$101,500
HB 373	Rural Development Studies	C 293 L 87	42,000
HB 419	Paternity/Admin Determination	C 441 L 87	467,787
HB 435	Real Estate Salesmen & Brokers	C 514 L 87 PV	84,372
HB 455	School Finances	C 2 L 87 E1	5,000,000
HB 611	Navy Home Port Everett/Funds	C 272 L 87	10,470,000
HB 758	Wildlife/Dept of	C 506 L 87 PV	8,000,000
HB 786	Innovative School Programs	C 401 L 87	49,500
HB 1021	Higher Ed Opportunities	C 305 L 87	20,000
HB 1065	Fingerprint I.D. System	C 450 L 87	5,451,000
SB 5380	Retirement Cost of Living	C 455 L 87	7,100,000
SB 5515	Vessel Dealer Registration	C 149 L 87	314,000
SB 5717	Nonprofit Corp/Finance Activ	C 190 L 87	24,000
SB 5880	Tuition Recovery/Private Voc	C 459 L 87	26,000
SB 5901	Convention/Trade Center	C 8 L 87	100,000
SB 5977	Ed Telecommunications Network	C 279 L 87	49,500
SB 6076	Transportation Budget	C 10 L 87 E1	593,543
Total			\$37,893,202

Summary Of Governor's Tax Plan

The Governor's tax plan as proposed would have increased revenues to the state by \$510 million. The main thrusts of the plan were tax base expansion, economic development and taxpayer relief provisions.

Elements of tax base expansion included extending the sales tax to most services, sales of newspapers, and extending the business and occupation (B&O) tax to business interest income. Taxpayer relief was provided by reducing the sales tax rate from 6.5% to 6.0%.

The economic development provisions included expanding the sales tax deferral program to in-state firms, eliminating the B&O tax surcharges and increasing the B&O tax deduction from \$1,000 per month to \$4,000 per month.

House Tax Plan Summary

The House tax plan (HB 404) would have increased revenues to the state by \$321 million. Unlike the Governor's tax plan of extending the sales tax to most services, the House would have extended the tax to a few selected services. These included the following services: computer/data processing; consulting and public relations; barbers and beauty shops; cable television; and miscellaneous personal services (e.g. massage parlors, escort services, etc.)

Other major elements of HB 404 were an additional B&O tax surcharge of 10% and extending the Distressed Area Sales Tax Deferral Program and B&O Tax Credit Program by three years.

**Estimated Impact
Of Governor's Tax Plan
'87-89 Biennium
(Dollars in millions)**

	State Impact	Local Impact
Extend sales tax to most services (@ 6.5%)	\$1140.7	\$286.8
Remove sales tax exemption for newspapers	17.7	3.5
Reduce state sales tax rate - 6.5% to 6.0%	-458.2	(6.3)
Extend sales tax deferral program to instate manufactures and R&D firms	-82.2	(16.4)
Eliminate B&O surtaxes	-88.6	0
Remove B&O tax exemption for interest income of nonfinancial businesses	92.2	0
Increase B&O and public utility tax exemption of \$1000/month to \$4000/month	81.0	(.5)
Other miscellaneous	-30.6	4.6
Total	\$510.0	\$271.7

**1987-89 House Tax Proposal
(Dollars in millions)**

**I. Sales Tax Base Expansion --
Part I**

	State	Local
A. Computer/data Processing Services	\$54.0	\$13.4
B. Consulting & Public Relations Services	\$59.7	\$14.8
C. Barbers And Beauty Shops	\$22.4	\$5.6
D. Miscellaneous Personal Services (e.g. spas, massage parlors, steam baths, escort services, etc.)	\$5.6	\$1.4
E. Cable Television	\$22.1	\$5.5
Subtotal	\$163.8	\$40.7

II. B&O 10% Surcharge - Part II

	State	Local
For Manufacturing, Extractors, Wholesale, Retail, and Services	\$157.7	\$0.0

III. Miscellaneous - Part III

	State	Local
A. Social And Health Welfare Organizations B&O Tax On Amounts Paid For State Health Insurance, Effective 1/1/88	\$0.8	\$0.0
B. Public Utility Privilege Tax Clarifying Incidence Of Tax To "consumer"	\$0.4	\$0.6
C. Extend Distressed Area Sales Tax Deferral Program From 1991 To 1994	\$0.0	\$0.0
D. Extend Distressed Area B&O Tax Credit Program From 1988 To 1991	\$(0.9)	\$0.0
E. B&O Tax Definition Of Warehouse	\$0.3	\$0.0
F. DD Group Homes B&O Clarification	\$0.0	\$0.0
G. Fruit Packers, Sales Tax On Containers	\$0.0	\$0.0
Subtotal	\$0.6	\$0.6
Grand Total	\$322.11	\$41.3

1987 Major Revenue Issues

The following descriptions of major revenue issues are provided because they were significant revenue issues during the 1987 Legislative Session. The four issues are the \$9.15 property tax levy limitation, common school construction, school levies, and the National Can business and occupation tax case.

\$9.15 Property Tax Limitation

In recent years, local property tax levies in various places in the state have been approaching the \$9.15 per \$1,000 of assessed valuation property tax limit. Traditionally, more property tax capacity for junior taxing districts exists outside cities and towns than inside. City and town levies, when added to junior taxing district levies inside the city or town can create the potential or actual exceeding of the \$9.15 statutory limitation.

Two proposals were passed by the 50th Legislature that alter procedures for local administration of the \$9.15 per \$1,000 of assessed valuation statutory property tax limit.

First, Engrossed Substitute House Bill 298 (CH. 138, L 87) authorized the de-annexation or withdrawal of territory by library, hospital, fire, and metro park districts. The authority to de-annex or withdraw territory was granted to alleviate the potential for exceeding the \$9.15 per \$1,000 of assessed valuation limit and/or to avoid a reduction in levies.

A de-annexation or withdrawal would occur upon: (a) request by the junior taxing district; and (b) approval by the city or town, if the territory in question were inside a city or town, or by the county if the area were outside of a city or town.

In addition, Engrossed Substitute House Bill 298 provided an additional "up to" \$.35 per \$1,000 of assessed valuation above the current \$9.15 limit for junior taxing districts to use. The Legislature required that before the additional \$.35 could be used, it must be authorized by a majority vote of the people residing in the junior taxing district proposing the increased rate. Secondly, the Legislature increased the statutory limit of \$9.15 to \$9.50 to accommodate the \$.35 increase. Additionally, if two or more junior taxing districts occupied part of the same territory, they would share in the increased amount of taxing capacity provided the voters approved the increase. Finally, if the requested increased taxing rates exceeded the \$9.50, the levies would be adjusted in the same manner as if the rates were being reduced due to the \$9.15 limitation.

A second major proposal was enacted by the Legislature in the form of House Bill 1185 (CH 255, L 87). The measure creates a new statutory method of reducing junior taxing district levies in the event the levies exceed the \$9.15 or \$9.50 statutory limit (ESHB 298) as the case may be.

The measure sets up a priority sequence, based on the statutory levies, of the manner in which pro-rationing occurs. First, park and recreation service area levies, park and recreation district levies, and cultural arts, stadium and convention levies would be reduced or eliminated. Second, levies for flood control districts would be reduced or eliminated. Third, all other junior taxing district levies *except* fire protection, hospital, metro park, and library districts would be reduced or eliminated. Fourth, the fire district second and third 50 cents per \$1,000 of assessed valuation would be reduced or eliminated. Fifth, the fire district first 50 cents and the hospital, metro park, and library district levies would be reduced or eliminated.

The measure excluded the levies for port and public utility districts, voter approved excess levies, and the emergency medical services levies from the priority pro-rationing sequence.

House Joint Resolution 4220 (School Construction):

If approved by the voters in November, 1987, the state could levy a property tax for school construction which is not included under the one percent constitutional limitation on regular property taxes. This additional property tax for school construction cannot exceed thirty-five cents per thousand dollars assessed value, and cannot be levied for more than fifteen years. For additional details, see section on Public Schools.

ReESHB 455 (School Levies):

This legislation deals with school districts' maintenance and operations levies, along with issues of class size and school employee compensation. The bill grants all districts levy capacity equivalent to twenty percent of state and federal allocations, and "holds harmless" some districts at levies of thirty percent. For a fuller discussion of these issues, see section on Public Schools.

National Can, et al, v. Department of Revenue

In this case, taxpayers are seeking refunds of business and occupation taxes paid from 1980 on. The suit challenges the constitutionality of the B&O tax as applied to (a) Washington manufacturers selling their products in other states and (b) out-of-state manufacturers selling their products in Washington. The taxpayers base their challenge on the Commerce Clause of the United States Constitution, relying primarily on a United States Supreme Court decision, *Armco v. Hardesty*, ___ U.S. ___, 81 L.Ed.2d 540, 104 S.Ct.2620 (1984). In *Armco*, the Court held a similar West Virginia tax invalid because it discriminated against interstate commerce.

On March 6, 1986, the Washington Supreme Court upheld the application of the B&O tax to these plaintiffs. The court found that Washington's tax was different from West Virginia's and that the Armco decision did not apply to Washington's tax.

The case is on appeal to the U.S. Supreme Court and was heard in March 1987. Estimates of the potential fiscal impact in the 1987-89 biennium range from a loss to the state general fund of \$0 million to \$1.2 billion depending on the nature of the decision.

The decision was not announced before the Legislature adjourned on May 21, 1987.